

Message Text

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ACTION EB-03

INFO OCT-01 SS-14 SP-02 L-01 INR-05 CIAE-00 NSC-05 NSCE-00

EUR-08 ISO-00 SSO-00 INRE-00 /039 W

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FM AMEMBASSY LONDON

TO SECSTATE WASHDC IMMEDIATE 0820

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E.O. 11652: N/A

TAGS: EIND, ETRD, UK

SUBJECT: ASSESSMENT OF U.K. STEEL INDUSTRY AND STEEL
MARKETMARKET

REF: STATE 095936

1. CONDITIONS

COMMENT OF SOURCE: INFORMATION CONTAINED IN THIS CABLE IS PRIVILEGED COMMERCIAL INTELLIGENCE. BSC PROVIDED THE INFORMATION WITH UNDERSTANDING THAT OUR MISSION TO EEC WOULD NOT BE INFORMED, AND INSISTED THAT THE DATA NOT BE RELEASED TO THE TRADE OR DISTRIBUTED OUTSIDE DEPT OF STATE EXCEPT ON NEED TO KNOW BASIS. BSC INFORMED US THEY ARE WORKING ON A SIMILAR REQUEST (AS WELL AS A MUCH MORE DETAILED REQUEST) FROM THE ECSC.

2. ANSWERS TO QUESTIONS RAISED IN REFTEL:

A. BSC CURRENT RAW STEEL AND FINISHED PRODUCT PRODUCTION, CAPACITY UTILIZATION AND PROJECTED OUTPUT FOR 1975: THEORETICAL CAPACITY IS 26 MILLION LIQUID TONS. EFFECTIVE CAPACITY (ALLOWING FOR OPERATIONAL BOTTLENECKS, ETC.) IS 19.5 MILLION METRIC TONS OF FINISHED PRODUCT. CAPACITY UTILIZATION (BASED ON 19.5 MILLION TON FIGURE) FOR 1975 IS OPTIMISTICALLY FORECAST
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TO BE 74 PERCENT. PROJECTED OUTPUT FOR 1975 IS 14.5

MILLION METRIC TONS.

B. STEEL CONSUMPTION, INCLUDING DOMESTIC AND EXPORT DEMAND: DURING 1975 BSC EXPECTS TO EXPORT 2.5 MILLION METRIC TONS WITH HOME CONSUMPTION ESTIMATED AT 12 MILLION METRIC TONS.

C. CURRENT INVENTORY LEVELS: STEEL STOCKHOLDERS CURRENTLY HOLD 18-20 WEEKS SUPPLY. A NORMAL INVENTORY LEVEL WOULD BE 12 TO 13 WEEKS SUPPLY.

D. ANTICIPATED VOLUME OF EXPORTS TO U.S.: BSC FORECASTS AT BEST IN 1975 TO EXPORT BETWEEN 400,000 AND 500,000 METRIC TONS TO THE U.S. THIS PROJECTION COMPARES WITH A POTENTIAL LAST YEAR OF NEARLY ONE MILLION METRIC TONS (BUT AN ACTUAL EXPORT OF ONLY 430,000 METRIC TONS DUE TO THE THREE-DAY WEEK AND DOMESTIC STEEL SHORTAGES). IN 1973 BSC REPORTED THAT 735,000 METRIC TONS WERE EXPORTED TO U.S. AND IN 1972 1,005,000 METRIC TONS.

E. PRICE TRENDS: DOMESTIC PRICES HAVE BEEN RISING RAPIDLY OVER PAST YEAR. U.K. NATIONALIZED INDUSTRIES HAVE BEEN TRYING TO ELIMINATE NEED FOR GOVT SUBSIDIES THROUGH "REALISTIC" PRICING POLICIES. IN ADDITION, INFLATION IN SECTORS CRITICAL TO THE STEEL INDUSTRY IS EVEN HIGHER THAN THE 20 TO 24 PERCENT NATIONAL RATE.

F. THE PRIVATE SECTOR PRODUCES ABOUT 10 PERCENT OF TOTAL U.K. STEEL. IT PRODUCES ABOUT 50 PERCENT OF THE LOW ALLOY (AUTOMOTIVE INDUSTRY) STEEL. ACCORDING TO BISPA (BRITISH INDEPENDENT STEEL PRODUCERS ASSN) THE PRIVATE SECTOR IS OPERATING AT BETWEEN 50 PERCENT AND FULL CAPACITY, WITH 75 PERCENT A SENSIBLE SECTOR WIDE FIGURE. "HIGH SPEED AND TOOL STEEL" IS HOLDING UP WELL.

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STAINLESS STEEL IS DOING VERY POORLY. THE PRODUCERS OF STEEL FOR HEAVY ENGINEERING ARE OPERATING AT FULL CAPACITY WHILE "FINISHING TRADES" ARE WAY DOWN. "COLD ROLLED STRIP AND BRIGHT-DRAWN BARS FINISHED TO HIGH STANDARDS" SALES WENT DOWN FIRST (LATE LAST YEAR) AND HAVE STAYED DOWN. MOST "HOT-ROLLED TYPES" ARE IN A SERIOUS DOWNTURN. PRIVATE PRODUCERS ARE MORE DEPENDENT ON U.S. AUTOMOTIVE INDUSTRY AND ARE THEREFORE IN A SERIOUS CONDITION. IN BISPA'S VIEW THERE IS LITTLE CHANCE FOR A REBOUND THIS YEAR.

6. U.K. IMPORTS: INDUSTRY SOURCES REPORT IMPORTS ARE RUNNING AT A HIGH LEVEL EVEN AS STOCKS BUILD UP. THIS, REPORTEDLY, IS SIMPLY THE FILLING OF ORDERS THAT CAN'T BE CANCELLED.

3. INDUSTRY ASSESSMENT: BSC HAS HAD AN AMBITIOUS MODERNIZATION AND RATIONALIZATION PLAN FOR SEVERAL YEARS. THE PLANS HAVE BEEN REPEATEDLY HELD UP BY CONSERVATIVE AND LABOR GOVTS ALIKE. RECENTLY SENIOR BSC EXECUTIVES "LET IT BE KNOWN" THAT 20,000 MEN "MUST" BE DROPPED FROM THE 220,000 LABOR FORCE THIS YEAR. IN FACT, THE INDUSTRY, IF AND WHEN IT IS ALLOWED TO MODERNIZE, COULD OPERATE AT THE END OF THE TEN-YEAR MODERNIZATION PROGRAM WITH AS FEW AS 50,000 MEN. PLANS WHICH INCLUDE REDUCTIONS IN THE WORK FORCE CLASH WITH THE IDEAS OF MR. AN-

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THONY WEDGWOOD BENN, SECRETARY FOR INDUSTRY, WHO TENDS TO CONSIDER SOCIAL COSTS OVER OPERATION EFFICIENCY. AS IT NOW STANDS BSC IS RELATIVELY OUTMODED AND INEFFICIENT; OPERATING RATHER WELL, HOWEVER, THANKS TO GOOD MANAGEMENT AND ABOVE AVERAGE LABOR RELATIONS. (AND UNTIL LAST YEAR, GOVT GRANTS TO COVER LOSSES.) LABOR RELATIONS ARE ALSO IN FOR A DIFFICULT PERIOD NOW AS UNION LEADERS ARE MAKING CLEAR THEY EXPECT PAY INCREASES IN LINE WITH THOSE RECEIVED RECENTLY IN OTHER NATIONALIZED INDUSTRIES - AROUND 30 PERCENT. MANAGEMENT HAS STATED THAT WAGE INCREASES ABOVE THE INFLATION RATE ARE OUT OF THE QUESTION.

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